UK FINANCE

A response to the PRA's consultation on CP14/18

UK Leverage Ratio: Applying the framework to systemic ring-fenced bodies and reflecting the systemic risk buffer

25th September 2018

Introduction

UK Finance is pleased to respond to the PRA's consultation on CP14/18 consultation on *UK Leverage Ratio: Applying the framework to systemic ring-fenced bodies and reflecting the systemic risk buffer*[1].

UK Finance represents nearly 300 of the leading firms providing finance, banking, markets and payments related services in or from the UK. UK Finance was created by combining most of the activities of the Asset Based Finance Association, the British Bankers' Association, the Council of Mortgage Lenders, Financial Fraud Action UK, Payments UK and the UK Cards Association. Our members are large and small, national and regional, domestic and international, corporate and mutual, retail and wholesale, physical and virtual, banks and non-banks. Our members' customers are individuals, corporates, charities, clubs, associations and government bodies, served domestically and cross-border. These customers access a wide range of financial and advisory products and services, essential to their day-to-day activities. The interests of our members' customers are at the heart of our work.

We recognise that the scope of CP14/18 is limited to our largest UK member banks. This response therefore represents their views alone, not those of UK Finance's wider membership.

Overview

UK Finance supports the proposals in the CP 14/18 which have been well signalled in advance by the Financial Policy Committee (FPC) and the Prudential Regulatory Authority (PRA). We also support the reiterated confirmation that the FPC will conduct a comprehensive review of the leverage ratio framework in the light of international developments and will also consider broadening the scope of the Leverage Ratio. UK Finance looks forward to responding to this planned review in due course.

Specific concerns

Adoption of International Standards for the Leverage Ratio

In line with pronouncements made by UK standard setters on the wider capital framework, we are anticipating that the UK will adopt internationally agreed standards for the Leverage Ratio rather than continue with a UK-specific national standard.

[1] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2018/cp1418.pdf

The Basel Committee leverage ratio standards and the EU proposals under the developing CRR2 rules appear to differ from the current UK framework in key aspects: the Buffers applied (no Countercyclical Leverage Buffer, different rate for G-SII Additional Leverage Buffer) and the Capital measure (Tier 1 Capital with no restriction on the AT1 capital component); and the level of application (solo vs. consolidated).

In order to avoid confusion and unnecessary duplication for capital adequacy, reporting and disclosure purposes, we would expect that once the Pillar 1 EU standards are finalised these will be implemented at the necessary level of application in the UK - with the current UK Leverage Ratio being discontinued – from the CRR2 implementation date. Where the Brexit outcome means that CRR2 EU standards will not be implemented in the UK, we would expect instead that the Basel standards be applied for the UK leverage ratio instead, replacing the current UK Leverage Ratio.

We would appreciate confirmation of the transition to international standards at the earliest possible point to ensure that firms' capital planning can consider the appropriate future capital requirements that result from the Leverage Ratio and assume this would be a key output of the anticipated FPC comprehensive review of the leverage ratio framework.

Extending the disclosure and reporting requirements

Appendices 1C, 1D, 3, 4 and 5 of CP14/18 will require the disclosure and reporting of the average leverage ratio at ring-fenced bank level. We question the need for this, given the business model of RFBs.

FSA083 currently requires firms to report at each quarter end a point in time leverage ratio figure as well as the daily average of the ratio over the quarter. The public disclosure part of the UK leverage ratio framework also requires external disclosure of these metrics on a quarterly basis. This currently applies at the top consolidated level but CP14/18 proposes that this requirement should be extended to the RFB. We are well aware that the daily average disclosure and reporting requirement was introduced to mitigate against alleged "window dressing", around the reporting date, which it was perceived that some banks undertook to flatter their reported and disclosed leverage ratio figure which, it was asserted, particularly arose in relation to investment banking activities.

Ring-fenced banks, however, have a very simple business model based on taking deposits and making loans to individuals and small businesses. RFBs are prohibited from undertaking investment banking activities that, it is believed, would result in the sort of window dressing that daily averaging of the leverage ratio is designed to mitigate against. In our view the costs of creating a daily averaging reporting process at RFB level outweigh the benefits and we therefore suggest that in the interests of proportionality this specific requirement of the UK leverage ratio framework should not be extended to RFBs and therefore FSA083 should not apply at this level. In the interests of clarity, the requirements surrounding the reporting and disclosure of the point in time (i.e. quarter end) leverage ratio would still apply at RFB level, satisfied through the submission of the relevant quarterly COREP Leverage returns at RFB level and the publication of the RFB Pillar 3 disclosures.

Responsible Executive

✉ simon.hills@ukfinance.org.uk

☎ 0203 934 1105